

## **Input price measurement in prospective payment**

**ISSUE:** All the payment systems operated by CMS use input price measurement methods to determine changes in prices and to update payment rates. How should these measurement methods be designed and what changes are appropriate for those currently in use?

**KEY POINTS:** This section of the update discussion of the March 2002 report provides an overview of input price indexes used by CMS. It identifies several policy issues to address in designing such systems:

- Use of sector-specific versus economywide input price indexes
- Treatment of changes in input mix
- Use of forecasts and treatment of forecast errors
- Coverage of price indexes

It then discusses the PPS hospital market basket, the PPS-exempt hospital market basket, the SNF market basket, the home health market basket, the development of a dialysis market basket, and the Medicare Economic Index (MEI). It includes recommendation options:

- CMS should explore use of sector-specific wage and benefit proxies with equal relative weights on these indexes and economywide indexes in all its input price indexes.
- CMS should consider developing separate input price indexes for psychiatric, long term, and rehabilitation hospitals and units as soon as possible.
- If the Congress replaces the SGR system for physician services, CMS should modify the MEI. The agency should use more appropriate measures of wages and salaries and of employee benefits for physicians and explore use of sector-specific measures. Productivity growth should be considered in payment update decisions but should not be included in the MEI.

**ACTION:** Commissioners should review the draft section and recommendation options. Staff will revise the section based on the Commission discussion and present a final chapter for approval at the January 2002 meeting.

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